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SUBJECT: No surprises in Latvian gas deal for 2007

11. Latvijas Gaze (Latvian Gas - LG) announced December 29 an agreement with Gazprom on 2007 natural gas prices. According to LG, the wholesale price per 1000 cubic meters (tcm) of gas will increase by 50 percent starting January 1, 2007 to USD215 per tcm. LG expects another price increase in 2008 (by about 30 percent), which will bring the costs of natural gas for Latvia close to Western European levels. The price increase was not unexpected. Throughout the year, LG representatives had been preparing the public for a price rise and Gazprom has long talked about moving Latvia to the same market prices as other EU member states

12. Although the cost of the gas contract has increased, consumers will not immediately feel the effect because rates were set by the regulators before the new contract was signed. Under Latvia's complicated system for setting retail prices for gas, which is tied to the price of heavy fuel oils, for the first few months of 2007 the retail price of natural gas will go down by about 3.5 percent for domestic consumers and 4-5 percent for industrial users. Now that the delivery contracts are signed, LG can apply to the regulators for an increase in retail prices, but any increase is not likely to be approved before the end of winter. Combined with unusually mild temperatures to date, the effect on the average consumer of higher gas prices is unlikely to be felt until much later in 2007.

Antweiler